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Educational Note Supplement

Guidance for Assumptions for Hypothetical Wind-Up and Solvency Valuations Update – Effective December 31, 2022, and Applicable to Valuations with Effective Dates on or after December 31, 2022, and no later than December 30, 2023

Committee on Pension Plan Financial Reporting

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The actuary should be familiar with relevant educational notes. Educational notes are not binding; rather they are intended to illustrate the application of the standards of practice. A practice that an educational note describes for a situation is not necessarily the only accepted practice for that situation nor is it necessarily accepted practice for a different situation. Responsibility for ensuring that work is in accordance with accepted actuarial practice lies with the actuary. As accepted actuarial practice evolves, an educational note may no longer appropriately illustrate the application of standards. To assist the actuary, the CIA website contains a reference of pending changes to educational notes.



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Memorandum

To: Members in the pension area

From: Dean Newell, Chair
Actuarial Guidance Council

Gus Van Helden, Chair
Committee on Pension Plan Financial Reporting

Date: January 25, 2023

Subject: **Educational Note Supplement: Guidance for Assumptions for Hypothetical Wind-Up and Solvency Valuations Update – Effective December 31, 2022, and Applicable to Valuations with Effective Dates on or after December 31, 2022, and no later than December 30, 2023**

The most recent guidance from the Committee on Pension Plan Financial Reporting (PPFRC) regarding assumptions for hypothetical wind-up and solvency valuations was provided in the [educational note supplement](#) dated October 25, 2022. This guidance applied for valuations with effective dates on and after September 30, 2022 (but not later than December 30, 2022).

The PPFRC has conducted its quarter-end review of group annuity pricing conditions as at December 31, 2022 and recommended to the AGC assumptions for hypothetical wind-up and solvency valuations for valuations with effective dates on or after December 31, 2022 (but no later than December 30, 2023).

In order to provide timely information to actuaries, the AGC has approved the guidance summarized in this memorandum. In accordance with the Institute's *Policy on Due Process for the Approval of Guidance Material Other than Standards of Practice and Research Documents*, this educational note supplement has been prepared by the PPFRC and has received final approval for distribution by the AGC on January 25, 2023.

Guidance as at December 31, 2022

The PPFRC has determined that an appropriate discount rate for estimating the cost of purchasing a non-indexed annuity or a fully consumer price index (CPI)-indexed annuity (prior to any adjustment for sub- or super-standard mortality) would be consistent with the [educational note](#) issued on March 11, 2022, with the exception of revisions to applicable durations and/or spreads as outlined in the following table.

Educational note/ supplement	Mortality table ¹	Non-indexed immediate and deferred pensions <i>Duration²: Spread relative to unadjusted CANSIM V39062</i>			Fully CPI-indexed pensions <i>Spread relative to unadjusted CANSIM V39057</i>
		Low duration	Medium duration	High duration	All durations
Dec 31, 2022	CPM2014Proj	7.7: + 160 bps	9.7: + 160 bps	11.7: + 160 bps	- 20 bps*
Sep 30, 2022	CPM2014Proj	7.8: + 140 bps	9.9: + 150 bps	11.9: + 150 bps	- 40 bps*
Jun 30, 2022	CPM2014Proj	7.8: + 130 bps	9.9: + 150 bps	11.9: + 150 bps	- 60 bps
Mar 31, 2022	CPM2014Proj	8.2: + 120 bps	10.5: + 140 bps	12.8: + 140 bps	- 40 bps
Dec 31, 2021	CPM2014Proj	8.7: + 100bps	11.3: + 120 bps	13.9: + 120 bps	- 40 bps

*** Clarification Regarding Indexed Pensions:** Given recent economic conditions, in Q3 2022 the PPFRC reached out to the insurance companies that provide quotes on the illustrative blocks of business to ensure that their pricing reflects a first pension increase for cost-of-living adjustments 12 months from the quotation date (i.e., pricing is not affected by actual inflation experience prior to the quotation date). Actuaries would consider whether any adjustment to the guidance provided is warranted based on the specific circumstances of a particular pension plan, including the timing of cost-of-living adjustments and actual inflation experience.

Very high duration annuities

The PPFRC has been monitoring the spreads for groups with durations higher than the high duration block listed in the table above and believes that these spreads are likely to be less than the spreads indicated at the high duration block (duration 11.7). As at December 31, 2022, the PPFRC believes that a reasonable approach to derive spreads for durations higher than high duration block is to decrease the spread by approximately 11 basis points for each 1 year increase in duration above 11.7. Other approaches may also be reasonable.

Large Plans

The PPFRC believes that the liability thresholds where a plan may have difficulty in effecting a single annuity purchase to settle its liabilities described in the educational note supplement issued on October 25, 2022 remain appropriate:

¹ "CPM2014Proj" refers to the 2014 Canadian Pensioners' Mortality Table (CPM2014), combined with mortality improvement scale CPM Improvement Scale B (CPM-B) with no adjustments for sub- or super-standard mortality.

² Duration is to be determined for the portion of the liabilities assumed to be settled through the purchase of annuities, based on the medium duration discount rate.

	Non-indexed annuities	Indexed annuities
June 30, 2022 onward	\$1,250 million	\$300 million
June 30, 2021 to June 29, 2022	\$1,000 million	\$300 million
December 31, 2018 to June 29, 2021	\$750 million	\$250 million
September 2013 to December 30, 2018	\$500 million	\$200 million

Retroactive application

If an actuary has already prepared a report (e.g., funding valuation report, solvency or transfer ratio report) with an effective date on or after December 31, 2022, before the publication of this guidance, the actuary would consider paragraphs 1710.36 through 1710.43 of the *Standards of Practice* to determine whether it is necessary to withdraw or amend the report.

Additional details on this guidance will be published in the form of an educational note, in accordance with the *Policy on Due Process for the Approval of Guidance Material other than Standards of Practice and Research Documents*.

DN, GVH